

Renzi faces a hard road but he is Italy's best hope

Wolfgang Münchau

There was a moment last week when Matteo Renzi looked the part of an Italian prime minister. The new leader of the Democratic party (PD) invited Silvio Berlusconi, leader of the Forza Italia party, to his headquarters, and the two stitched together a cross-party agreement on a new voting system.

Government and the parliament had prevaricated on this important project for months. But within just a few weeks, Mr Renzi generated sufficient forward motion to reach agreement with a man despised by the left. And he managed to bulldoze it through his party's national committee.

The 39-year-old Mr Renzi is not prime minister – at least, not yet. He is the mayor of Florence. But he is also the biggest single source of energy in Italian politics since Mr Berlusconi arrived on the political scene more than 20 years ago. Apart from a new electoral system, Mr Renzi promised labour market reforms for this year. And tax cuts. And privatisations. He has big ambitions for his country. He also has big ambitions for himself. He clearly wants the job of Enrico Letta, the PD prime minister, with whom he has an uneasy relationship. In the meantime, Mr Renzi's strategy is to run rings round Mr Letta and to drive the political agenda from his party's headquarters.

What should we make of Mr Renzi? Does he offer a genuine alternative? Or is this just about personal ambition?

On electoral reform, the mere existence of an agreement is more important than the content. A new system became necessary after Italy's highest court decided the current system violated important constitutional principles.

The Renzi-Berlusconi agreement

itself is not great. The new system will be as messy as the old one. It is essentially a system of proportional representation but with a majority premium – free seats allocated to the largest party to give it a small overall majority in parliament.

Worst of all, voters will have no real choice over the MPs who represent them. Instead, they will have to choose between predetermined lists of candidates drawn up by the parties that decide to build an electoral coalition. Mr Letta has not made any proposal of his own but criticised that particular aspect of the Renzi-Berlusconi agreement. Mr Renzi said this was what it took to get Mr Berlusconi to sign up. It was a dirty compromise. Everyone knows that. But it gets the job done. No electoral system is perfect anyway.

The episode is revealing of how Mr Renzi approaches politics. I would expect him to deal with economic reform in a similarly forceful and pragmatic spirit. He challenges the conventional way of doing things in Italy. I suspect he will also challenge the consensus in Europe. On economic reform I expect him to strike similarly grand bargains – between left and right, employers and trade unions, and between Italy and the EU. The kinds of reform Mr Renzi is seeking will cost money. He will not be able to reform and consolidate the budget at the same time because he will need to pay political bribes to secure deals. Even the Germans did not manage that. The year Gerhard Schröder, then chancellor, reformed the labour market, he breached the EU's fiscal targets.

The task ahead for Mr Renzi is harder than that faced by Mr Schröder or by Tony Blair when he was UK prime minister. Mr Blair had the good fortune that his predecessors in government had reformed the economy and his predecessors as Labour leaders had

changed the party. Mr Renzi will have to achieve all that himself. He needs to offer more than a simple supply side agenda, the kind recently offered by president François Hollande of France. He will need to ensure Italy can sustain its position in the monetary union. This is a job of macroeconomic adjustment. Hiring and firing rules have nothing to do with that.

The Italian economy had a reasonable growth record between the 1950s and the 1990s. But with the adoption of the euro it stopped growing. To withstand the rigours of a fixed exchange rate system, an economy must adjust on the real side, through wages and prices. That did not happen. To meet the European fiscal rules, successive Italian governments piled taxes on business and labour, which reduced Italy's competitiveness further. With a debt ratio of more than 130 per cent of economic output, the leeway for any fiscal overshoot is limited.

Successive governments of the right and left have failed to deliver policies – at home or at EU level – to allow for resumption of pre-eurozone growth rates. Italy needs a lot more than just the kind of weak economic recovery now under way. It is hard to see how it could revert to pre-eurozone rates of growth even if the government did everything right.

There are many good reasons to be sceptical of Mr Renzi. Maybe he will turn out to be a disappointment – a Berlusconi of the left, as some of his critics claim. I doubt it. Last week's political deal tells us that he is the best hope Italy has. It is not a very big hope even then.

munchau@eurointelligence.com

The political deal with Berlusconi was a dirty compromise. Everyone knows that. But it gets the job done

